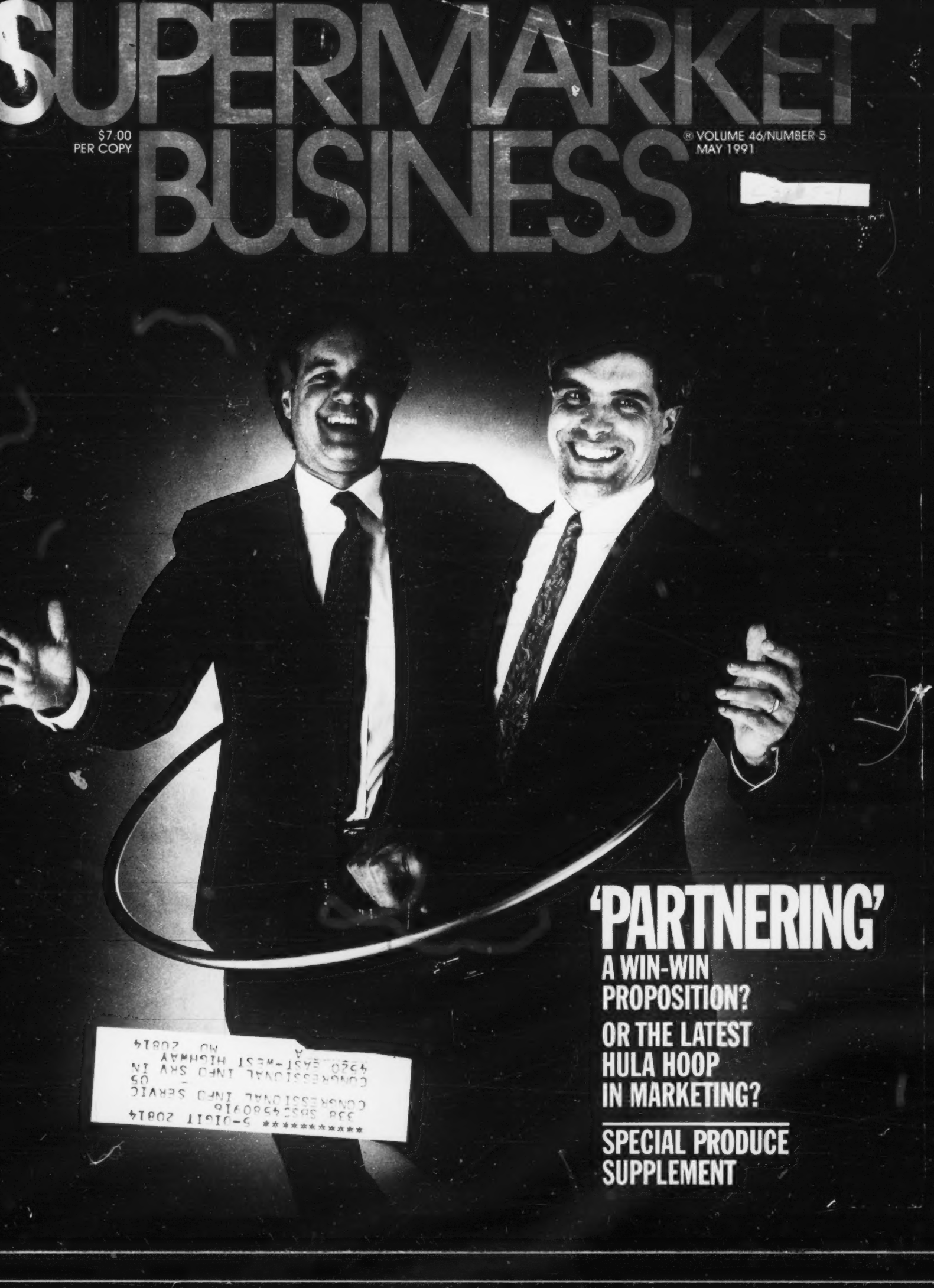
SUPERMARKET BUSINESS

$7.00
PER COPY

® VOLUME 46/NUMBER 5
MAY 1991



'PARTNERING'

A WIN-WIN PROPOSITION?

OR THE LATEST HULA HOOP IN MARKETING?

SPECIAL PRODUCE SUPPLEMENT

SUPERMARKET BUSINESS

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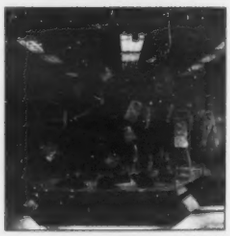

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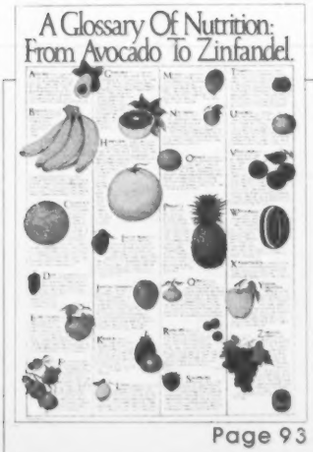

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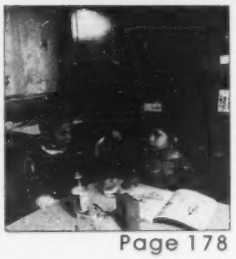

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Cover Photo: David DiMicco

WILL 'PARTNERING' CURE ANYTHING?

By Ken Partch, Editor-in-Chief

It depends. It depends upon what you expect. The problem with it is that it may promise more than it can deliver. And conversely, it may just become last year's hula hoop, and everything goes on as before.

Many moons ago, it seemed the word 'partner' appeared as the theme of nearly every industry meeting program. Each segment of the industry was always partners in this or that—especially progress. Perhaps that's why it sounds so strange when it pops up now, when the various elements of grocery distribution couldn't be farther apart. It's a nice try, but I think we need a more realistic concept.

On the other hand, it may be a start toward a new way of doing business that has not yet been fully defined or fully developed. But almost everyone seems to agree that the old buyer/seller adversarial relationship doesn't seem to be working.

In the three years since Professor Walter Salmon made his now-famous report to Food Marketing Institute, the problems he was addressing have gotten worse. More and more people are saying: "Maybe he was right." (That the only way to cure the inherent waste in the system was to go to some kind of every-day-low-price system—as impractical as that may sound.)

Where he was undoubtedly right was in saying that we had created a monster at tremendous cost to the system in such practices as deal-driven forward buying and diverting. Big changes are coming in the way companies are handling promotions and cooperative payments. These range from half-annual payments "up front" and the remainder at the end of the year, to tightly co-coordinated and locked-in programs, and to third-party draft accounts on which checks are written and then must be countersigned as the programs are performed.

Still, business is often done as usual, even with companies that think they are involved in "partnerships" with customer accounts. Two manufacturers involved in account partnerships were asked this hypothetical question: Suppose your partnership account looks at your promotional deal offer and says, "I love it. Let me have 50 carloads." Because you have access to his database, you know that he can't sell 50 carloads during the stated promotion period. He obviously has other plans. Do you make the sale? One company answered, "Yes," and the other answered, "No."

How do you overcome the notion that one side has an unfair advantage? You open the books.

The good partnership arrangements, or as some prefer, value-added relationships, will be extremely beneficial because each will learn something about the other's business that they never knew before. Perhaps some good, industry-wide systems will develop, as a result. Best of all, perhaps some of the suspicion that one is trying to take advantage of the other will disappear.

We asked one company president if he was "partnering" with anyone. After his initial "... Am I what?" response, and we explained, he replied: "Oh, we've talked about it, but I'm not very fond of the idea. I don't know if one of my competitors would be too happy to learn that we had formed a partnership with one of his major suppliers and were involved in some kind of information-sharing— or vice versa." Others are concerned that their buyers might lose some of their aggressiveness as buyers.

Put in its best light, I asked one manufacturer participating in partnership relationships how he overcame the natural suspicion that many retailers and wholesalers have about how the manufacturer makes money. Many CEOs of major retailing or wholesaling companies feel they have been patsies to the manufacturers for years. "How do you overcome that?" I asked. "You show him the balance sheet," he replied. "You show where the investment goes and where the equity is, and the return." In other words, you open the books.

That's not exactly Toyota-style management, as yet, but it certainly does beat most of the industry discussions about the merits of a standardized pallet.

It's 1991. Perhaps we need a different antitrust law from the one left to us from 1910, and a different Robinson-Patman Act of 1933. The present methods of doing business are certainly inadequate. More on this, later. ■

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SUPERMARKET BUSINESS Magazine (ISSN 0196-5700) is published monthly by FM Business Publications, Inc., 475 Park Avenue South, New York, N.Y. 10016. Telephone: 212-779-4391. Circulated free of charge to grocery retailers and wholesalers. U.S. subscriptions $53 per year; Canada, $62 per year; Foreign subscriptions $73 (seamail), $233 (airmail) per year. Single copies $7, except Consumer Expenditures Study (September issue) $32 per copy. (Discount prices available on multiple purchases.)

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All circulation inquiries to: SUPERMARKET BUSINESS, P.O. Box 175, Winchester, MA 01890.

COMPENSATION SURVEY

ARE EXECUTIVE PAYROLLS HOLDING THE LINE AGAINST TODAY'S ECONOMY?

BY DAVID LITWAK ■ *We're all working for a paycheck!*

Pride, security, work ethic, esprit de corps are important in motivating employees at all levels, but the paycheck is still king.

Don't let anybody fool you, compensation is as important a part of the work experience for the store manager, or headquarter's buyer, or company MIS director, even corporate chairman as it is for the cashier or warehouse worker.

The compensation packages that supermarket companies pay to their supervisory, management and professional employees play as important a part in determining job performance today as they ever have.

Compensation for the industry's professionals has been steady despite the tumultuous economic twists of the past few years. The question remains: What lies ahead?

After merchandise, labor still ranks as the second-highest cost of operating a supermarket company. According to the Food Marketing Institute, labor accounted for 15 percent of sales in 1989. Of this, 11.4 percent went to payroll costs and 3.5 percent went into fringe benefits.

To put these percentages into hard dollars, consider that payroll costs in 1989 were $37.62 billion, and the costs of benefits amounted to $11.67 billion. In all, the supermarket industry spent $49.29 billion on its employees in 1989. Figures for 1990 are not yet available, but it's a sure bet that they will be higher.

In today's economy a lot of other industries have cut compensation, or their management workforces, with dramatic repercussions on employee morale. The supermarket industry has, despite economic ups and downs, maintained a stable, albeit, slow record of compensation growth.

Compensation's slow growth

"What I've seen in the eight to 10 Midwestern states in which I operate is that wages have steadily increased, but not very strongly," says Edward McCaskey, Midwest Management Resources, Inc. (Roscoe, Ill.).

McCaskey, an executive recruiter specializing in the supermarket industry, has seen no great jumps in compensation in the industry at any level. His observation was echoed by most retail human resource professionals.

"There have been no great changes in compensation. Our compensation rates have been remarkably stable over the past three or four years," indicated Mike Kissner, vice president–human resources, Cullum Co.'s (Dallas, Tex.).

"It seems that over the past four years there haven't been any dramatic shifts in compensation as far as our company is concerned. Over the last 3 years our increases have been in the 3 to 6 percent range. It's been pretty stable.

"It's pretty much the way the whole industry has gone. Before we make a move we check what our competitors are doing. In the Dallas market the economy hasn't been very strong, and that's been a contributing factor.

"I'm not aware of any drastic moves anywhere, at least not among the people I've talked to. We've moved ahead, either at or a little bit ahead of inflation."

Keeping salaries abreast of the rate of inflation appears to be what most retailers have offered their management employees. Few areas in the company, or regions of the country, have offered increases in compensation that are much beyond the current fluctuations of the economy.

"Hot" spots

Traditionally the supermarket industry has always had one or two areas or disciplines that could be considered "hot" in terms of compensation. During some periods it may have been the store managers, or the perishables specialists, or headquarters operations people.

There now appear to be no clear winners in terms of an extra emphasis on compensation among a specific type of managerial employee. There are many different opinions as to who is getting the most attention these days.

"Twenty years ago when stores started to grow a lot of concentration and autonomy was given to the store manager. For whatever reason, during the 1980s this slacked off something fierce, everybody was concerned with the buyers and merchandisers. We are now back to total responsibility being placed on the store manager," states William Battles, president, W.E.B. Associates, an executive recruiting firm for supermarket companies (Brewster, Mass.).

"The '80s were the age of the perishables side of the business. Everybody got into perishables. In the '90s everybody has all those departments now. It is the age of

'If the people dry up in terms of availability, it forces you to look into nontraditional areas.'

microwaves and shelves are expanding so fast that they are busting. The shelves are all getting remerchandised.

"As a result, the operations manager and the district manager are receiving less and less attention, and getting less and less of the pie. Now they want operations people to be product people.

"The second thing that is coming into the '90s is general merchandise. In the '80s I spent all my time looking for produce, deli and bakery people, now I'm looking for pharmacy people, HBA people and GM people."

Not everyone necessarily agrees with this opinion on what areas of the industry are receiving more compensation attention. Many of the retailers we spoke to maintained that while they were looking harder to recruit some groups of employees, there generally was no emphasis placed on extra compensation for these particular disciplines.

"We've always valued our GM area, right along with grocery and perishables, so there's been no change there for us," stresses Cullum's Kissner.

"I think that if there's been any increase in attention, its been in the pharmacy area. The people in that area are highly portable, and the supply has not been very promising in the past few years. I think that as a result the compensation has stretched in that particular area, but I think that's just supply and demand."

According to Mike Plecki, manager of management compensation and payroll, Jewel Food Stores (Melrose Park, Ill.), companies have special needs in terms of personnel from time to time, but most don't favor one group of employees over others as a general rule.

"There are no hot areas in any way that I can see. We have certain places that we're looking at— certain perishable areas—but it is not a general thing.

"Compensation-wise there's nothing special within any area. From a business point of view, we may have a certain focus, special needs that arise from time to time. Some of our programs are just maintenance programs."

One company that has just experienced having to look for a special group of employees is Top's Markets (Buffalo, N.Y.). They recently opened up a large new unit that included a number of international food sections. Michael Strout, vice president–human resources, recalls his search:

"We were opening up a new store with many international shops, and that was a challenge by itself— to represent all the groups and find people with the specific skills needed.

"I think that looking for people with specific skills, especially in perishables and merchandising, is the trend in the industry. Not necessarily giving them higher compensation, we pay them the same as any department manager, it's just the variety of people that you have to look for."

In order to get people with the specific skills needed for special perishable sections, pharmacy, GM, or many of the home office functions, more and more supermarket companies are forced to look outside the industry.

While for some disciplines they are forced to look at non-traditional sources, virtually all human resource directors feel that the most desirable candidates for any position in a supermarket company comes from within the industry whenever possible.

"Our expertise and contacts are within the food industry," says McCaskey. "I find that the companies are more receptive to candidiates from within the industry."

"I imagine that it's probably true in some cases that you have to go outside the industry, but I know that there's a preference for people who have grocery operations backgrounds," says Kissner.

"If the people dry up in terms of availability, it forces you to look into nontraditional areas. We've not had that situation yet."

The preferred source for filling executive and professional positions within the supermarket or home office continues to be from within the organization.

There is little doubt that companies like to promote their own. This is the traditional way of advancement in the industry, and it continues to be the way most operations and merchandising positions are filled.

"We certainly try to promote from within, especially within the merchandising and sales areas. We don't really look outside," remarks Jewel's Plecki.

"When you get into some of the professional areas, such as accounting and information systems, you try and find the right person in terms of being able to come right in and do the job, so sometimes you have to go outside.

"The information systems area has been the toughest to recruit. In terms of compensation, I think we're competitive with what these professional people command in other industries. In terms of the store groups—sales, merchandising—I think we've always been competitive."

There are two main reasons that supermarket companies recruit from outside their organizations, or outside the industry. First is an unavailability of qualified professionals in the company or the industry, such as information specialists or pharmacists.

The other situation arises when a company is expanding so rapidly that they cannot support the expansion by internal promotion alone.

A reliance on hiring from within the industry, and especially on promoting from within the company has helped hold down the escalation of compensation. Any time you have to bring in lots of people from another company, or another industry, you generally have to increase their rate of compensation substantially to recruit them.

Pay compared to other retailers

Since supermarkets occasionally have to recruit executives and professionals from other industries, they have to offer wages competitive with those industries. Compensation parity is also a must to keep supermarket executives from going over to other retail industries.

While there was a disparity in compensation in the past, most experts believe that supermarket executives are now paid on a level that is competitive with other retail industries. However, they may still lag behind manufacturing and other non-retail industries.

"Now, because of the attention on the product managers, compensation is getting pretty comparable," thinks Battles.

"There was a gap of 14 to 22 percent during the '80s, when the discount merchants went crazy. They almost went drunk with compensation. Now we've almost come up to a parity situation.

"In the higher levels there is still a huge gap. Under the vice president level there is parity, but vice president and above, discount retailers are still paying far in excess of supermarket salaries.

"If the discounter would do the opposite and study how a supermarket was structured he'd be better off. The turnover ratio of a supermarket is much better than in a discounter. For every executive that leaves a supermarket company, at least four will have turned in another comparable retail setting.

"That's where the disparity in salary comes from,

'The supermarket industry is completely on a par with other retail industries. In fact, compensation in it is possibly greater than in some others.'

they are constantly buying help. Every time they bring someone new in they have to bump that person up in salary. In supermarkets it's still very much learning from the ground up in the same company."

Top's Strout thinks that the industry has achieved parity even into the higher levels.

"The supermarket industry is completely on a par with other retail industries. In fact, compensation in it is possibly greater than in some others. In terms of the store manager, a store is a good medium sized business by itself. The compensation is there.

"All across the board, supermarket employees and executives make as much as those of mass merchandisers. You have to be competitive."

Tales of bonuses and benefits

While salaries have remained steady, more volatility has been exhibited on the benefits and incentives side of the compensation equation.

Bonuses and other incentives have always been a part of compensation for the store manager and some of the other operations staff. These bonuses have become more widespread and more sophisticated over the past few years.

"It's kind of reflective of the general trend. This industry has always had a bonus versus salary segment. Here, we've always offered a heavy incentive," says Jewel's Plecki.

"We offer incentive to both the store and the office. Within the store, we'll come down two or three levels below the manager with an incentive. Within the office setting it's still a smaller proportion of the staff that really has an incentive program. It usually doesn't get to the lower level management or professional employees."

Bonuses are sometimes used as a tool in recruiting employees, especially when they are asked to come from another company, or another region.

"The hiring is getting much more sophisticated. They are into packages now. We've gone through a phase where there is no real difference in the marketplace in terms of salaries, and cost of living has leveled off," muses Battles.

"With most of the people that we're bringing in around the country, and even at some of the lower levels, you have to garnish the deal with a hiring bonus. These can run from $2,500 to as much as $15,000 depending on the position. It's called a one-time cost of transition.

"Bonuses are probably the biggest single thing next to stock that candidates are looking for. They want an acceptable living salary, then they want benefits that can be converted into long-term savings, such as a stock plan or a 401K plan. Employees from the store manager on up are much more attuned to their long-term goals."

On the more traditional benefits side, there are two areas that are becoming topics of concern to both the company and the employee. The first is the skyrocketing cost of medical coverage.

Company costs for these coverages increase significantly every year. Human resource directors say that they are not meeting much resistance to company plans to contain or share these costs with employees.

"Insurance is in a cost containment process. With the obvious medical cost inflation, I think that people are pretty understanding about cost containment. Whether it's a greater deductible or greater shared premiums, whatever the program, it's an easy sell," thinks Kissner.

The economy rears its ugly head

During the latter part of the 1980s, when inflation was low, salaries in the industry rose to match the economy. What has been happening to compensation now that recession has hit?

The answer you get from most sources is: Not a whole lot! While the economy has slowed, the supermarket industry has been less affected than some other industries. There have been no massive layoffs in the industry; if anything, supermarket companies are employing more people today.

The major effect of today's economy may be to further slow the growth of salaries and other parts of compensation. This will happen, experts caution, if consumer spending is cut and profits, in turn, fall. Even with this, no drastic consequences are foreseen.There is no sign that wages or benefits will be cut in the near future.

"The recent economic conditions have had an effect in that there hasn't been the type of inflationary strain on compensation that we've had in the past. I think that's helped to hold the line," says Kissner.

"As we get into the recessionary period, there are a lot of bankruptcies and layoffs going on in other industries. I think it's a lot easier to sell a 3 percent annual increase to a person who has a job when they read in the paper about mass layoffs and wage freezes. I think that's had a moderating effect on wages across the country."

Much more than the general economic conditions, the financial constraints within an individual company have affected compensation growth.

Those companies involved in leveraged buy-outs appear to be the most hesitant to raise compensation. Huge debt coupled with lower levels of consumer spending place too much of a strain on their resources to allow more than minimal compensation increases.

Compensation is part of the solution to the industry's biggest problem, that of finding enough qualified people to run the departments, stores and companies, and keeping them.

Compensation alone will not make an employee come to work each day and give the company 120 percent of his energy and enthusiasm. As we've seen, it is an essential ingredient—without compensation the employee doesn't come—but it may not be enough to make him stay. According to Strout:

"How you treat employees is the most important thing. Whether it's compensation, benefits, attitude or anything else, you have to pay attention to the employees." ■

WAGE & SALARY REPORT
April 1991

Note: This is not reflective of special deals, bonuses or other incentives.

	Low*	Median**	High***
PRESIDENT	$125,000	$220,000	$300,000+(1)
V.P. FINANCE/CFO	85,000	145,000	180,000
V.P. PERISHABLES	85,000	110,000	140,000
V.P. MERCHANDISING	105,000	145,000	175,000
V.P. OPERATIONS	96,000	127,000	155,000
GROCERY BUYER/PERISHABLES	32,000	37,000	44,000
GROCERY BUYER/DRY	38,000	44,000	49,000
MEAT BUYER	38,000	46,000	55,000
PRODUCE BUYER	32,000	38,000	44,000
DIRECTOR/OPERATIONS	65,000	80,500	105,000
DISTRICT MANAGER	47,000	59,000	75,000
STORE MANAGER			
Super/Combo	42,800	54,000	65,000
Conventional	36,000	42,000	51,000
Club	$45,000	60,000	85,000

*Low: pertains to more urban areas and smaller companies
**Median: pertains to urban and suburban areas and medium-sized companies
***High: pertains to high-density metropolitan urban and suburban areas and large companies.
(1) The range at this point is too varied to calculate.

In its annual Wage & Salary Report, W.E.B. Associates has compiled average salaries for a number of managerial job classifications in the industry. To better reflect differences in cost of living and among companies of various sizes, three average salaries are given for each position.

SUPERMARKET BUSINESS

NONFOODS BUSINESS

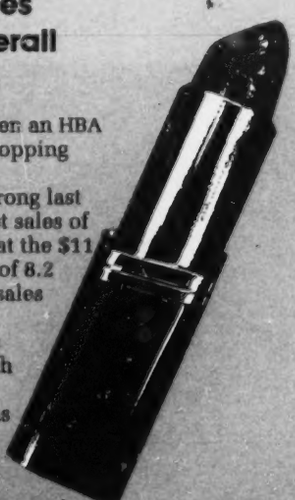
INSIGHTS FOR MANAGEMENT AND THE GM/HBA SPECIALIST

SECOND ANNUAL

HBA OPERATIONS REVIEW

Sales in the HBA section were strong last year, topping $11 billion for the first time. OTC drugs and proprietary remedies increased their share of department sales, helping the overall rate of growth to its best level in years.

BY DAVID LITWAK AND JANET TORRES CEPEDA



Health and beauty aids items are an essential part of any supermarket's product mix. Because every supermarket in America has an HBA section of some kind, consumers fully expect to find these products when they go shopping in our stores. The question is, do they intend to buy their HBA products in the supermarket?

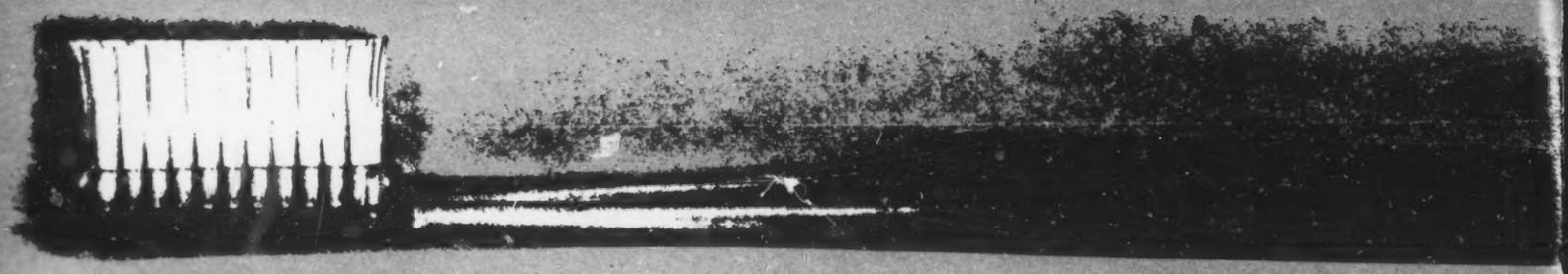
The answer is not a simple yes or no. Clearly some HBA sales are planned, while others are strictly impulse. Many customers may not be expecting the wide selection of HBA products and package sizes available in many grocery stores.

While most consumers expect to find basic HBA products in their neighborhood supermarket, there are still many products that consumers will assume are only available at a drugstore. But is the supermarket more often becoming the destination point when an HBA item is the essential reason for a shopping trip?

Sales in the HBA section were strong last year. For the first time, supermarket sales of health and beauty aids topped out at the $11 billion mark. This was an increase of 8.2 percent over 1989's $10.17 billion sales level.

The 8.2 percent increase in sales represents the highest rate of growth for the HBA department in years. Since 1985, annual sales growth has been between 5 and 7 percent.

The higher than usual growth in 1990 can be attributed to a number of different factors. One factor is the number of HBA sections in operation. Because there is a section in virtually every supermarket, the



PROFITS AND PRODUCTS

Although the portion of total store sales that comes from the HBA department dropped slightly last year (down to 4.9 percent from 5.3 percent in 1989), the section continues to grow in sales and profitability. The department's average gross margin grew to a healthy 27.3 percent in 1990.

OTC drugs and proprietary remedies continues to be by far the largest selling group of HBA categories. Last year OTC drugs' share of department sales grew to 24.4 percent, up from 23.2 percent the previous year. The continued stream of drugs being decontrolled has helped increase the sales of OTC remedies.

Diet aids were last year's hottest HBA category, increasing its share of departmental sales by 50 percent to a share of 1.5 percent of sales. Operators predict that diet aids will continue to be a very hot category in the future.

Share of Total Store Sales

Mean: **4.9%** Median: **4.6%**

By Store Format

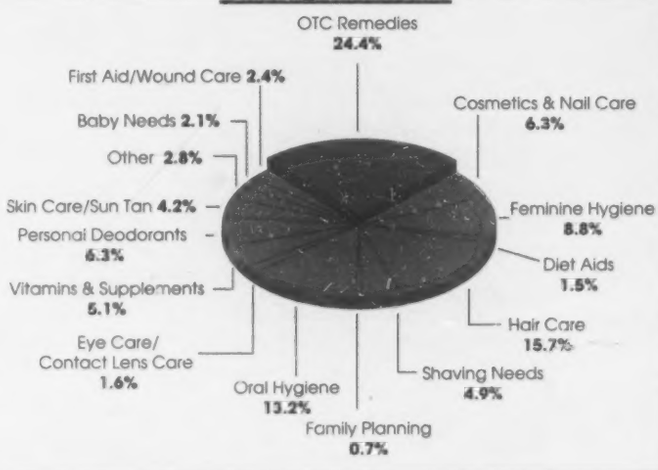
Conventional	**3.8%**
Super Store	**5.1**
Superwarehouse	**4.7**

Gross Margin

Mean: **27.3%** Median: **25.6%**

Less than 20%	**13%**
20-24	**26**
25-29	**30**
30-34	**21**
35 or more	**10**
Total	**100%**

Portioning Out HBA Sales



HBA Products Most Frequently Added or Given Increased Space

—Eye care —Skin care

What Will Be the Hottest Products of the 1990s?

—Diet aids —Razor products
—Hair care/Shampoo

SPACE AND LABOR

Despite slightly more labor involvement in the section last year, labor costs did not increase. It now takes the equivalent of two full-time employees to man the section, but those employees only cost about 3.8 percent of HBA sales. The use of service merchandisers by 41 percent of the operating companies in some of their units helps to keep down labor costs.

How Much for Labor

(Labor as percent of HBA sales)

Mean: **3.8%** Median: **4.3%**

Percent of companies using service merchandisers in at least some of their units: **41%**

Number of Employees

Full Time	**1.4**
Part Time	**1.2**
Full-Time Equivalent	**2.0**

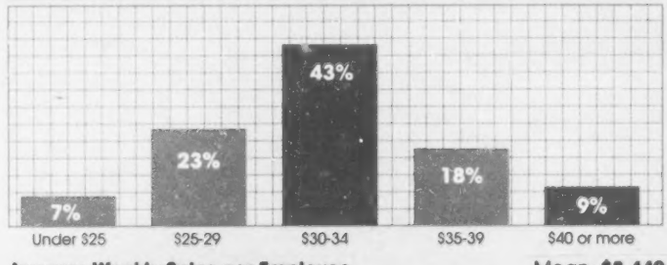
Size of Department

Mean: **208 gondola feet**
Median: **218 gondola feet**

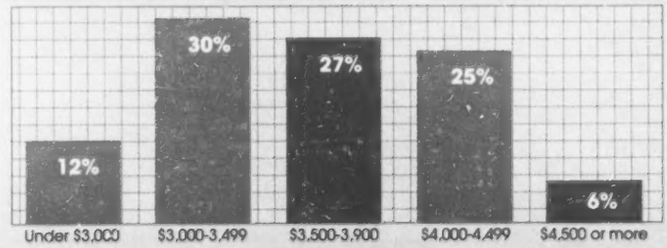
By Store Format

Conventional	**156 gd. ft.**
Super Store	**305 gd. ft.**
Superwarehouse	**297 gd. ft.**

Average Weekly Sales per Gondola Foot Mean: **$33.07**



Average Weekly Sales per Employee Mean: **$3,440**



HBA sections continue to grow in sales and profitability, due in part to an evolving product mix.

number of sections fluctuates with the number of stores in operation during any one year.

During 1990 the number of supermarkets rose by about 50 units to approximately 30,750 units. Fifty more units do not by themselves greatly increase annual HBA sales, but they may affect the percentage sales gain. In some of the previous six years, the number of supermarket units in operation went down by as much as 200, bringing down with it the growth percentage of HBA sections.

Even more significant is the continuation of a change in the product mix of the department. OTC drugs and proprietary remedies continued to increase their share of the HBA product mix last year, accounting for 24.4 percent of department sales as opposed to 23.2 percent the year before.

As more and more prescription drugs become OTC drugs, the share of sales going to OTC products will continue to grow. Proprietary remedies and OTC drugs bring in higher prices than most other HBA products, so overall sales dollars should increase.

Another factor is that many HBA sections have expanded their selections of beauty aids to include upscale items. Many sections, for instance, now include higher priced brands of hair and skin care items.

Where consumers once looked only for less expensive brands in supermarkets, they are now buying premium brands there. With this switchover to upscale brands, the section is able to generate more sales dollars, without necessarily increasing volume movement.

Pharmacies on the rise

While the number of HBA sections in supermarkets did not grow significantly last

HBA OPERATIONS REVIEW

SALES

It is safe to say that every supermarket in America has some sort of Health & Beauty Aids section. The 30,750 operating supermarkets had sales of $11 billion through these departments last year. This is an increase of 8.2 percent over the $10.47 billion brought in in 1989.

Seventy-nine percent of the companies reported that their annual HBA sales did increase in 1990. Only 4 percent reported a decrease in HBA sales for that year.

The number of pharmacies in supermarkets rose sharply last year, reaching 4,884. With average weekly sales of $11,917, these pharmacies had annual sales last year that exceeded $3 billion.

Health and Beauty Aids Sections

Number of Stores with HBA Sections:	**30,750**
Percent of Supermarkets	**100%**
Number of Stores with Pharmacies:	**4,884**
Percent of Supermarkets with Pharmacies:	**15.9%**

Pharmacy Sales

Total Supermarket Pharmacy Sales: **$3.03 Billion**

Average Weekly Sales Per Pharmacy: **$11,917**

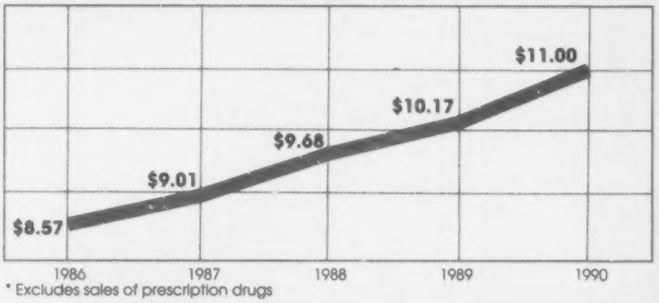
Average Weekly Sales of HBA

Mean: **$6,879** Mean: **$6,639**

Average Weekly Sales:

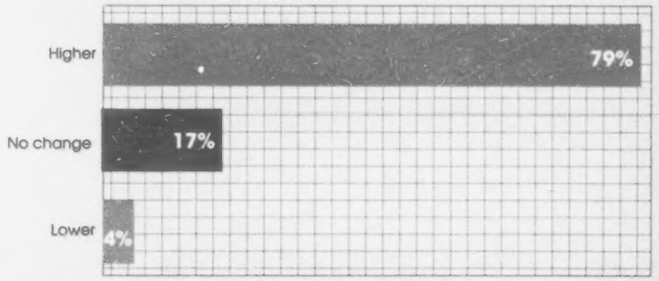
Less than $5,500	**5%**
$5,501-$6,000	**28**
$6,001-$6,500	**32**
$6,501-$7,000	**24**
7,001 or more	**11**
Total	**100%**

Annual Sales* (billions)



* Excludes sales of prescription drugs

Change in Dollar Sales (1990 vs.1989)



Average reported increase **6.3%**

year, the number of pharmacies did. The number of dispensing pharmacies in supermarkets grew from 3,745 in 1989 to 4,884 in 1990. The annual sales of these pharmacy units totalled $3.03 billion.

Aside from bringing in average weekly sales of $11,917, the pharmacy serves another purpose that helps to account for the increase in HBA sales last year. It has long been suspected that a pharmacy will increase the sales of HBA products in a store.

Seventy-one percent of the grocery companies that run stores both with and without pharmacies confirm that their stores with pharmacies have higher HBA sales. The two sections are most often placed right next to each other (in 98 percent of stores having both sections). This is particularly effective in light of all the new OTC drug products that consumers may wish to question the pharmacist about.

While this does not prove causality, it does indicate that more pharmacies will signal more stores capable of sustaining higher volume HBA sections.

On the whole, weekly sales in the HBA section did increase last year. The average weekly HBA sales per store rose roughly $500, from $6,370 in 1989 to $6,879 in 1990. Obviously, this is an average of all stores, some stores have weekly sales that are three or four times this figure, while those that only offer a handful of HBA products would have weekly sales that are a fraction of the industry-wide average.

Both HBA and pharmacy sales reached new multi-billion dollar plateaus in 1990. HBA sales topped $11 billion, while supermarket pharmacies brought in over $3 billion.

The sales growth was shared by most of the supermarket operators. Seventy-nine percent reported that their HBA sales per store were higher in 1990 than in 1989. The average reported increase was 6.3 percent. Only 4 percent reported lower HBA sales in 1990, with the remaining 17 percent saying that sales remained at about the same level for both years.

Space and labor

There were no major changes in the labor picture in the HBA section last year. For the most part, labor costs remain negligible, with only 3.8 percent of HBA sales going to pay for the labor costs involved in the section.

On average, there are only two full-time equivalent employees manning the HBA section. While this is up just slightly from the 1.7 needed a year ago, there is no real impact on costs.

Part of the reason that labor costs are held down in many

HBA OPERATIONS REVIEW

MERCHANDISING & PROMOTION

Supermarkets may be trying to achieve the effect of a "mini-drugstore" within their walls. Almost every supermarket that has a pharmacy positions the HBA department adjacent to that pharmacy. In this way, HBA customers can take advantage of the expertise of the pharmacist.

The presence of the pharmacy does seem to have an effect on HBA sales. Seventy-one percent of the operators report that HBA sales are higher in their stores that have pharmacies than those that don't.

This may be because those stores that have pharmacies are bigger, higher-trafficked stores to begin with, but it may also be due to the fact that having the pharmacy in the supermarket has eliminated the shopper's reason for going to the drugstore to begin with.

Location of HBA Section

(In stores with pharmacies)

Adjacent to pharmacy	96.8%
Away from pharmacy	3.2
Total	100%

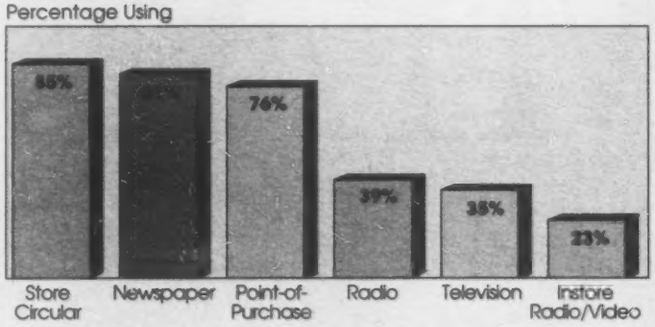
Home Care Section

(percent having separate section)

	% companies
None	77%
In some stores	23
Total	100%

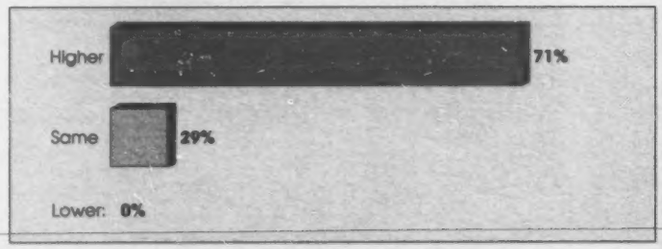
Advertising and Promotion

Percentage Using



How do sales of HBA in your stores with pharmacies compare with stores without pharmacies?

(Percent of Companies)



There is a direct positive correlation between the presence of a pharmacy in a supermarket and the level of HBA sales in that store.

operations is the use of service merchandisers. Forty-one percent of the supermarket companies responding report using a service merchandiser to handle their HBA section in at least some of their stores. In 1989 the figure was 39 percent.

The size of the average HBA section increased by just about 10 gondola feet in 1990, up to 208 gd. ft. Even with these extra few feet, the section managed to increase its sales per gd. ft. by almost $1. Weekly sales per gd. ft. in 1990 reached the $33.07 mark, which represented another high for the department.

The growth in the size of the department is necessitated by the ever-increasing number and variety of products trying to get onto the HBA shelves. As indicated, retailers have broadened their selections within a number of categories, notably the OTC and various beauty aids categories.

Among many of the beauty aids categories, products tend to become "hot" and proliferate very quickly, and then wane, only to be replaced by the next fad. Witness the rise and fall of mousse in the hair care category, which was replaced by styling gel, which itself has given way to "pump" styling products.

The beauty aids sections may exhibit this rapid rise and fall of products faster than most other sections or departments, much to the chagrin of the HBA merchandiser. One thing is sure, the concept of "mousse" has lasted a lot longer in the instore bakery section than it has in the hair care section.

As unpredictable as some of these fads are, operators were able to give SUPERMARKET BUSINESS some predictions as to what the "hot" categories in the department will be for the rest of the year. These categories include: diet aids, hair care, especially in the shampoo category, new razor products and deodorants.

Other than the increase in the share of sales going to OTC drugs and remedies, few other HBA categories either gained or lost significant amounts in their share the sales pie. The one exception to this was the diet aids category.

HBA getting its share

The share of total store sales that the HBA department accounted for last year dipped somewhat. In 1990 the department accounted on average for 4.9 percent of sales. The previous year, the department's share of total sales was 5.3 percent.

One indicator that did hold its own, and even grew slightly last year, was the department's average gross margin. In 1990 the gross margin rose to 27.3 percent from 1989's 26.6 percent.

As the product mix of the department continues to shift to higher margin products, such as more proprietary OTCs, upper end beauty aids and diet aids, the average gross margin should increase even further.

Retailers are searching for a way to make their stores a destination for an HBA shopping trip: A way to effect a change in the consumers' minds in the way in which they see the HBA section in their favorite supermarket.

Promotion and advertising have been the primary route that retailers have used. The promotion of the HBA section follows closely the way retailers promote the other departments in the store.

Many retailers have tried to change the image of the department is by bringing in pharmacies.

Upgrading the image of the section in the consumer's mind is probably the most important factor in building up HBA sales in the years ahead. Consumer consciousness of the scope of products and services that the department has to offer will ensure its future growth. ■

HEALTH & BEAUTY AIDS
SAMI FOUR-WEEK FOOD STORE UNIT TRENDS VS. YEAR AGO

PRODUCT GROUP AND CATEGORY	% CHANGE VS. YEAR AGO 4 WEEKS ENDING 12/28/90	4 WEEKS ENDING 1/25/91	4 WEEKS ENDING 2/22/91
BABY NEEDS	**- 7.3%**	**- 3.0%**	**- 4.5%**
Baby Powders	+ 2.3	+ 8.8	- 3.2
Baby Oils, Creams & Lotions	- 16.6	- 8.5	- 6.7
Infant Clothes	- 11.4	- 13.1	- 8.5
Nursing Supplies	+ 0.3	+ 0.2	- 2.3
MISC. PERSONAL NEEDS	**+ 1.3%**	**+ 1.7%**	**+ 1.1%**
Contraceptives	- 2.7	+ 7.6	- 1.4
Personal Lubricants	+ 5.4	+ 4.3	+ 3.0
Home Testing Kits	+ 18.5	+ 10.0	+ 12.5
Thermometers	+ 0.2	- 23.9	+ 2.6
DEODORANTS	**- 3.9%**	**- 7.4%**	**- 6.9%**
Sprays	- 10.6	- 12.8	- 12.2
Roll-Ons	- 14.2	- 21.1	- 17.3
Stick Deodorants & Pads	+ 3.7	+ 1.9	+ 3.0
Creams	- 12.2	- 14.1	- 14.2
Deodorants & Talcum Powders	- 19.2	- 13.2	- 29.1
Feminine Hygiene Deodorants	- 6.3	- 9.2	- 19.9
Foot Deodorants & Athlete's Foot Remedies	+ 11.0	+ 5.6	+ 2.3
Feminine Douches	- 3.7	- 11.2	- 13.6
FIRST AID	**- 6.0%**	**- 6.2%**	**- 7.6%**
Antiseptics	- 1.5	+ 1.7	+ 6.5
First Aid Products	- 7.8	- 8.9	- 11.7
Elastic Goods & Dressings	+ 40.0	+ 37.3	+ 40.5
HAIR CARE NEEDS	**- 3.2%**	**- 2.4%**	**- 3.7%**
Shampoos	- 2.5	- 2.9	- 5.1
Hair Sprays	- 5.4	- 2.9	- 3.5
Hair Conditioning Rinses	- 2.9	- 1.9	- 3.3
Hair Setting Needs	+ 2.8	+ 3.1	+ 3.6
Home Permanent Kits	- 10.6	- 10.9	- 8.8
Hair Coloring	- 1.8	+ 1.0	- 3.7
Hair Dressing Needs	- 9.4	- 9.6	- 3.9
ORAL HYGIENE	**- 4.4%**	**- 1.5%**	**- 5.9%**
Toothpastes & Powders	- 3.2	+ 2.2	- 4.1
Mouthwashes	- 12.5	- 10.7	- 7.4
Breath Fresheners	- 0.4	- 3.2	- 4.0
Denture Cleaners	- 4.8	- 5.7	- 12.5
Denture Adhesives	- 10.4	- 11.9	- 7.5
Toothbrushes	+ 1.2	- 1.3	- 11.2
Dental Aids	+ 3.1	+ 5.7	+ 2.1
PROPRIETARY REMEDIES	**- 9.2%**	**- 6.1%**	**+ 4.0%**
Antacids	- 2.0	- 0.8	+ 1.7
Internal Analgesics	- 9.2	- 8.2	- 4.4
External Analgesics	+ 3.1	+ 1.5	- 1.7
Cold Remedies	- 12.9	- 8.2	+ 12.1
Nasal Sprays/Drops/Inhalers	- 12.1	- 11.2	+ 9.5
Chest Rubs	- 14.6	- 8.0	+ 16.5
Cough Remedies	- 16.1	- 8.6	+ 18.9
Laxatives	- 5.8	2.6	- 1.8
Sleeping Aids	+ 4.8	+ 2.6	+ 5.2
Tranquilizers	- 13.0	+ 2.7	- 6.6
Eye Care Products	- 3.0	- 1.3	- 2.1
Appetite Suppressants	- 24.2	- 24.5	- 23.8
Synthetic Vitamins	- 11.9	- 7.1	- 4.1
Natural Vitamins	+ 4.6	+ 8.9	+ 1.7
Misc. Proprietary Remedies	- 1.9	- 0.3	+ 4.6
SHAVING NEEDS	**- 4.6%**	**- 7.5%**	**- 5.4%**
Shaving Creams	- 4.0	- 6.6	- 4.4
Pre-Shave Lotions	- 3.4	- 5.9	- 14.9
After-Shave Lotions	- 13.8	- 7.9	- 9.3
Razor Blades	- 3.6	- 7.9	- 5.2
SKIN CARE AIDS	**- 15.2%**	**- 9.1%**	**- 1.2%**
Hand & Body Creams & Lotions	- 24.7	- 17.1	- 6.0
Facial Preparations	+ 1.7	+ 4.1	- 3.1
Lip Care Products	- 16.9	- 8.9	- 0.3
Suntan Lotions & Oils	+ 1.6	+ 3.9	+ 30.9
Cosmetic & Medicated Skin Aids	+ 2.2	+ 2.9	+ 2.6
TOTAL ALL CATEGORIES	**- 6.7%**	**- 4.9%**	**- 2.0%**

HBA TURNAROUND PACED BY SALES OF COLD REMEDIES

Although total HBA unit sales in February were still below 1990 levels, total dollars were up. Proprietary remedies unit sales rose 4.0 percent.

BY ALAN B. MILLER JR.

The four-week period ending February 22, 1991 marks the end of the SAMI tracking service, after 25 years of reporting on warehouse withdrawal trends in food stores and, more recently, in drug stores. Many of the major manufacturers that have been subscribers to SAMI services over the years have transferred their allegiance to the InfoScan scanner services offered by Information Resources Inc., and it is likely that monthly trends of health and beauty aids categories will continue to be reported in SUPERMARKET BUSINESS based on IRI data.

Basing sales movement on scanner data rather than warehouse withdrawal figures provides two important advantages with respect to accuracy. First of all, scanner movement among highly seasonal products such as suntan products or cough and cold remedies reflects consumer pickup at the time purchases are made rather than when the merchandise was shipped to the stores. Second, in the case of multiple-product displays, there are problems with recording item movement that do not exist with sales measurement at the checkout counters.

During the final 28 days of SAMI reporting, some corrections were noted to the weakness plaguing a number of health and beauty aids categories in recent months. The most dramatic trend reversal was found among proprietary remedies, where February unit sales moved 4.0% ahead of the level in the corresponding year-ago period. This favorable trend was in contrast to a 4.0% loss rate for the 12-week span and also compared favorably with the 2.5% loss for the full 52-week period.

Overall, among all 57 health and beauty aids categories tracked by SAMI, four-week unit movement was 2.0% behind that of a year ago. This was clearly a step forward when compared to the 4.5% loss rate for the 12-week span and the 2.5% loss for the full 52-week period.

Total department dollar sales moved back into the black with a 1.5% gain, representing a comeback from the 1.5% 12-week loss. The HBA dollar gain was higher than the 1.0% increase in frozen food dollars and represented superior performance to the loss of 0.9% for dry grocery non-food items. Higher four-week dollar gains were achieved by refrigerated foods (+4.6%) and shelf-stable foods (+1.9%).

Drugstore sales decline

The HBA food store trending in February was superior to the performance in drugstores, where dollar sales fell 1.3% while units receded 7.7% vs. the year-ago period.

In food stores, only two HBA product groups showed four-week positive trends: the aforementioned proprietary remedies (+4.0%) and miscellaneous personal needs (+1.1%). The latter product group was helped by increases in three of its four categories: home testing kits (+12.5), personal lubricants (+3.0%), and clinical thermometers (+2.6%). Unit sales of contraceptives fell 1.4%. These products had a unit gain of 6.2% for the full year and accounted for $42.7 million in food stores (as compared to $186.9 million in drugstores).

There were 19 product categories with four-week unit movement gains, paced by suntan lotion-suntan oil (+30.9%), cough remedies (+18.9%), chest rubs (+16.5%), home testing kits (+12.5%), and cold remedies (+12.1%). Losses were registered in 38 HBA product categories. The